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KITCHEN & BATH MARKET INDEX (KBMI)

Designer: Cassia Wyner  Photographer: Lara Kimmerer
Conducted jointly by the National Kitchen & Bath Association and John Burns Real Estate Consulting, the Kitchen & Bath Market Index (KBMI) examines current kitchen and bath industry demand, future expectations, and issues and challenges that industry professionals are facing in their businesses. The Q2 2020 report is based on findings from 624 NKBA members across four primary industry segments:
EXECUTIVE SUMMARY

Kitchen & Bath Market Index

Current Conditions

Health of the Industry

Future Conditions

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 2Q20, Pub: Aug-20) *Values are KBMI totals.
EXECUTIVE SUMMARY

We are pleased to release the **Q2 2020 NKBA / John Burns Kitchen & Bath Market Index (KBMI)**, the industry’s definitive gauge of kitchen and bath industry conditions. This quarterly index is the result of a partnership between the National Kitchen & Bath Association and John Burns Real Estate Consulting.

Amid a global pandemic the kitchen and bath industry contracted again in Q2. Our survey shows declining demand and industry revenues, but significantly improving optimism regarding future business conditions and an overall improving view of industry health. **Our Q2 2020 survey shows:**

- **Q2 sales declined.** The kitchen and bath industry contracted in Q2 2020, as the KBMI rated a **44.2** on a scale of 0–100, with 50 being flat sales growth. Q2’s KBMI is more than 30% lower than last year’s rating of 65.4 but nearly 10% higher than last quarter’s rating of 41.0 as companies adjust to the new normal. The industry continues to view economic uncertainty, US economic recession, fear of a second wave of COVID, lack of consumer confidence and stock market volatility as major underlying challenges.

- **Future industry outlook has turned optimistic.** The industry is now considerably more positive on future conditions (61.9 index reading) than on current conditions (31.3 index reading), and 2020 sales growth expectations have strengthened as businesses have adapted to changes and challenges in the marketplace.
  - The industry now expects **4.4% full-year sales decline in 2020**, a significant improvement from the 13.7% full-year sales decline expectation reported by NKBA members last quarter.

- **The industry says the COVID-19 pandemic is still having a significant impact on the business environment, but signs of optimism exist across the industry.** Companies in all industry segments report strengthening demand-side fundamentals, especially among younger consumers and in markets where construction remains an essential industry. Supply-side issues continue to negatively impact the industry’s ability to consistently operate and grow, but most companies are adapting to these challenges by shifting sourcing strategies and fulfilling demand in both the new construction and remodeling segments.

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 2Q20, Pub: Aug-20)
EXECUTIVE SUMMARY

- Across industry segments, NKBA members describe how the COVID-19 pandemic and related government-led shutdown measures continue to impact their businesses in Q2.
  - **Designers**, although significantly challenged by current demand conditions as consumers and companies cut back on design services, are reporting a significant improvement in project statuses quarter over quarter. Eighty-six percent of designers report making ‘some level of progress’ on existing projects, enabled primarily by virtual meeting and e-design platforms. Signs of improving demand fundamentals also exist as one in three designers report demand for bids are higher in Q2 than in Q1 (where only 8% said they saw higher bids).
  - **Building and construction** companies saw sales declines of high single-digits during Q2, but collectively expect robust sales growth next quarter given strong project pipelines and bid activity. Companies cite shift to smaller project sizes and lower price points as headwinds to revenue growth but two in three companies now report the majority of their projects are back on schedule.
  - **Retail and sales** companies say showroom closures and supply chain management were significant challenges and barriers to sales growth during Q2; however, among all industry segments, retail sales is the only segment expecting positive sales growth for the whole year. Companies point to improving foot traffic and an influx of demand from younger consumers as primary sources of optimism.
  - **Manufacturers** also collectively report lower sales in Q2 compared to prior year as supply and demand slowed due to market shutdowns across the US. Compared to prior quarter, however, manufacturing companies report strong re-hiring efforts in addition to improving utilization rates, pointing to potential for sales growth in Q3 and beyond. Capital expenditure plans, a strong gauge of medium to long-term vitality, also improved as manufacturers re-introduce allocations and invest in their businesses to achieve growth goals.
  - Although challenges exist, the industry is clearly pivoting to capitalize on the high level of pent-up demand that exists for new kitchens and bathrooms across end markets.

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 2Q20, Pub: Aug-20)
At 44.2, the Kitchen & Bath Market Index indicates the industry contracted in Q2 2020. The index most heavily reflects lower sales in Q2 compared to prior year sales across industry segments despite a general expectation of higher kitchen and bath sales in Q3, and an improving view of industry health. Design companies index the lowest at 40.1, well below building and construction, retail sales, and manufacturing segments at 49.8, 45.7, and 47.0, respectively.

**Scores above 50 indicate industry growth, while scores below 50 indicate slowing activity.**

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**Graph:**
- **All Segments:** 44.2
- **Design:** 40.1
- **Building & Construction:** 49.8
- **Retail Sales:** 45.7
- **Manufacturing:** 47.0

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Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 2Q20, Pub: Aug-20)
At **44.2**, the Q2 2020 KBMI rates **slightly higher than last quarter**, but still well below last year’s Q2 rating of 65.4. NKBA members reported declining sales in Q2, but the industry has become more optimistic on full-year sales expectations for 2020. Collectively, the industry increased their full-year 2020 sales growth outlook to -4.4%, a 930 basis point improvement from the expected 13.7% decline reported by members last quarter.

<table>
<thead>
<tr>
<th>KBMI</th>
<th>Q2 2019</th>
<th>Q3 2019</th>
<th>Q4 2019</th>
<th>Q1 2020</th>
<th>Q2 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>% change vs prior quarter</td>
<td>N/A</td>
<td>-2%</td>
<td>8%</td>
<td>-41%</td>
<td>8%</td>
</tr>
<tr>
<td><strong>Current Business Conditions</strong></td>
<td>63.7</td>
<td>61.7</td>
<td>66.9</td>
<td>46.9</td>
<td>31.3</td>
</tr>
<tr>
<td>% change vs prior quarter</td>
<td>N/A</td>
<td>-3%</td>
<td>8%</td>
<td>-30%</td>
<td>-33%</td>
</tr>
<tr>
<td><strong>Future Business Conditions</strong></td>
<td>70.6</td>
<td>68.4</td>
<td>76.6</td>
<td>19.8</td>
<td>61.9</td>
</tr>
<tr>
<td>% change vs prior quarter</td>
<td>N/A</td>
<td>-3%</td>
<td>12%</td>
<td>-74%</td>
<td>213%</td>
</tr>
<tr>
<td><strong>Health of the Industry</strong></td>
<td>6.7</td>
<td>6.7</td>
<td>7.2</td>
<td>4.1</td>
<td>5.9</td>
</tr>
<tr>
<td>% change vs prior quarter</td>
<td>N/A</td>
<td>0%</td>
<td>7%</td>
<td>-43%</td>
<td>45%</td>
</tr>
</tbody>
</table>

**2019 OUTLOOK**

<table>
<thead>
<tr>
<th>Full-Year Sales Growth Outlook*</th>
<th>Q2 2019</th>
<th>Q3 2019</th>
<th>Q4 2019</th>
<th>Q1 2020</th>
<th>Q2 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Change in guidance vs prior quarter</strong></td>
<td>N/A</td>
<td>-120 bps</td>
<td>+ 730 bps</td>
<td>-245 bps</td>
<td>+ 930 bps</td>
</tr>
</tbody>
</table>

Basis Points (BPS) denotes the percentage change in financial data. One basis point is equal to 1/100th of 1%, or 0.01%, or 0.0001. Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 2Q20, Pub: Aug-20)
Overall, the current business conditions index is 31.3, a dramatic drop from a year ago. Building and construction firms lead at 37. Manufacturers and retail sales firms index above the total weighted average at a 33.5 and 33.6 respectively, while design firms continue to under-index at 27.2.

Current Business Conditions

*sales last quarter vs. same period prior year*

<table>
<thead>
<tr>
<th>Segment</th>
<th>Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Segments</td>
<td>31.3</td>
</tr>
<tr>
<td>Design</td>
<td>27.2</td>
</tr>
<tr>
<td>Building &amp; Construction</td>
<td>37.0</td>
</tr>
<tr>
<td>Retail Sales</td>
<td>33.6</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>33.5</td>
</tr>
</tbody>
</table>

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 2Q20, Pub: Aug-20)
At **61.9**, the industry expects Q3 2020 sales to improve from Q2 2020. Building/construction firms and manufacturers are the most optimistic, while design firms expect lower growth than all other segments.

### Future Business Conditions

*sales next quarter vs. same period prior year*

<table>
<thead>
<tr>
<th></th>
<th>Higher</th>
<th>Stayed the Same</th>
<th>Lower</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Segments</td>
<td>61.9</td>
<td>56.3</td>
<td>69.1</td>
</tr>
<tr>
<td>Design</td>
<td>69.1</td>
<td>62.9</td>
<td>68.0</td>
</tr>
<tr>
<td>Building &amp; Construction</td>
<td>62.9</td>
<td>68.0</td>
<td>68.0</td>
</tr>
<tr>
<td>Retail Sales</td>
<td>68.0</td>
<td>68.0</td>
<td>68.0</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>68.0</td>
<td>68.0</td>
<td>68.0</td>
</tr>
</tbody>
</table>

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 2Q20, Pub: Aug-20)
The overall kitchen and bath industry currently rates industry health at a 5.9 out of 10. Design companies are more pessimistic than manufacturers, building and construction, and retail sales businesses.

Health of the Industry

*segment rating from extremely strong to extremely weak*

<table>
<thead>
<tr>
<th>Segment</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Segments</td>
<td>5.9</td>
</tr>
<tr>
<td>Design</td>
<td>5.6</td>
</tr>
<tr>
<td>Building &amp; Construction</td>
<td>6.4</td>
</tr>
<tr>
<td>Retail Sales</td>
<td>5.9</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>6.1</td>
</tr>
</tbody>
</table>

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 2Q20, Pub: Aug-20)
The current economic recession and associated factors – fear of second wave of COVID-19, weakening consumer confidence and stock market volatility – top the list of the industry’s most significant challenges and concerns in Q2 2020. The top three concerns of 2019 - availability of skilled laborers, cost of materials and labor costs - remained present, but were succeeded by broader economic challenges as the pandemic has disrupted the economy.

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 2Q20, Pub: Aug-20)
SALES ENVIRONMENT

Designer: Karen Swanson  Photographer: Jared Kuzia
NKBA members reported a sales decline of 11.4% on average in Q2 2020 compared to the same 2019 period. Design firms reported the largest YOY decline of 14.6% while retail sales, building and construction companies, and manufacturers reported high single digit declines of 9.5%, 9%, and 7.1%, respectively.

Q2 2020 Sales Growth (Decline)

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 2Q20, Pub: Aug-20)
The industry now expects full-year sales to be down 4.4% in 2020 compared to 2019. Although this expectation is much lower than pre-COVID guidance, it is a significant improvement from Q1 outlook of -13.7%.

<table>
<thead>
<tr>
<th>Segment</th>
<th>Last Quarter Outlook</th>
<th>Current Outlook</th>
<th>Change in Outlook*</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Industry Segments</td>
<td>-13.7%</td>
<td>-4.4%</td>
<td>+930 bps</td>
</tr>
<tr>
<td>Design</td>
<td>-16.3%</td>
<td>-8.8%</td>
<td>+750 bps</td>
</tr>
<tr>
<td>Building &amp; Construction</td>
<td>-12.9%</td>
<td>-2.4%</td>
<td>+1,050 bps</td>
</tr>
<tr>
<td>Retail Sales</td>
<td>-12.1%</td>
<td>+0.8%</td>
<td>+1,290 bps</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>-7.6%</td>
<td>-0.9%</td>
<td>+670 bps</td>
</tr>
</tbody>
</table>

Basis Points (BPS) denotes the percentage change in financial data. One basis point is equal to 1/100th of 1%, or 0.01%, or 0.0001. Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 2Q20, Pub: Aug-20)
The COVID-19 pandemic continues to impact the kitchen and bath industry, but the severity of impact has reduced considerably in Q2 compared to Q1 per NKBA members. Among all segments, design firms were impacted the most in Q2 (rating impact of 6.7 out of 10) and retail sales companies saw the least amount of impact (rating impact of 6.0 out of 10) as many retail companies adapted their business models successfully.

**Overall Impact of COVID-19 on Industry**

(1 = “No impact at all” and 10 = “Significant impact”)

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 2Q20, Pub: Aug-20)
Although NKBA members report COVID’s overall impact has subsided in Q2 relative to Q1, most companies report demand remains either somewhat lower or significantly lower than pre-COVID levels. More than one in four designers say demand is significantly lower due to the pandemic compared to 11% of manufacturers and 12% of building and construction companies.

**COVID-19 Impact on Demand**

<table>
<thead>
<tr>
<th>Source</th>
<th>Significantly lower demand</th>
<th>Somewhat lower demand</th>
<th>Business as usual</th>
<th>Somewhat higher demand</th>
<th>Significantly higher demand</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Segments</td>
<td>20%</td>
<td>38%</td>
<td>13%</td>
<td>25%</td>
<td>4%</td>
</tr>
<tr>
<td>Retail Sales</td>
<td>15%</td>
<td>39%</td>
<td>11%</td>
<td>30%</td>
<td>5%</td>
</tr>
<tr>
<td>Building &amp; Construction</td>
<td>12%</td>
<td>41%</td>
<td>10%</td>
<td>31%</td>
<td>7%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>11%</td>
<td>45%</td>
<td>16%</td>
<td>27%</td>
<td>1%</td>
</tr>
<tr>
<td>Design</td>
<td>28%</td>
<td>34%</td>
<td>15%</td>
<td>19%</td>
<td>4%</td>
</tr>
</tbody>
</table>

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 2Q20, Pub: Aug-20)
In addition to changes in demand, a significant portion of the industry is also seeing changes in the mix of products and services demanded by customers. Across all segments, 43% of all companies report a major change in the types of products and services demanded by clients or customers. Forty-five percent of design firms say there has been a significant shift in their business, while 40% of manufacturers report a major change in their product mix.

% of Industry Reporting a Major Change in Mix of Products and Services Demanded

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 2Q20, Pub: Aug-20)
Of the companies experiencing major changes in product or services demanded, 20% report a significant shift in price points demanded, 14% report a noteworthy shift in average project size, 12% report a major change in demand for essentials, repairs, or simple replacements, 11% say a large change in the amount of calls for DIY-assistance, and 10% say demand for wellness design or products has shifted significantly.

Types of Major Changes Cited
as % of companies who experienced major demand shifts
The most notable shifts in demand are shifts to lower price points, a shift to smaller project sizes, an increase in demand for simple repairs and replacements, an increase in requests for DIY-project assistance, and higher demand for wellness products.

Demand Shifts – % of Companies Reporting Higher or Lower Demand
Among health and wellness products, demand for air purifiers, touchless faucets and antimicrobial door handles is notably higher than pre-pandemic levels.

% of Companies Reporting Increased Demand Due to COVID-19

- Air purifiers: 68%
- Touchless faucets: 51%
- Antimicrobial door handles: 50%
- Antimicrobial shower walls: 41%
- Water filtration systems: 37%
- Easy-clean induction cooktops: 35%
- Antimicrobial countertops or surfaces: 34%
- Antimicrobial window treatments: 32%
- Easy-clean flat panel cabinetry: 30%
- Appliances with antimicrobial features: 29%
- Self-sanitizing plumbing fixtures: 28%

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 2Q20, Pub: Aug-20)
SHIFTS AND CHANGES IN DEMAND

Directionally, companies who are experiencing changes in demand are generally experiencing a shift to lower price points, a shift to smaller project sizes, are experiencing more demand for simple repairs and replacements, are seeing more requests for DIY-project assistance or are experiencing higher demand for wellness products.

% of Companies Saying Consumers are Increasing Budgets to Incorporate into Design

- Air purifiers: 68%
- Touchless faucets: 64%
- Water filtration systems: 57%
- Antimicrobial shower walls: 48%
- Antimicrobial door handles: 45%
- Easy-clean induction cooktops: 45%
- Antimicrobial countertops or surfaces: 45%
- Appliances with antimicrobial features: 41%
- Antimicrobial window treatments: 41%
- Self-sanitizing plumbing fixtures: 38%
- Easy-clean flat panel cabinetry: 28%

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 2Q20, Pub: Aug-20)
Mid-Range Customer is Fading; Wealthy Consumer is Behaving Normally, but Average Consumer is Now More Price-Conscious

“We’ve never seen a shift in what luxury buyers want - they always go for the high-end materials. What we’ve lost is the mid range project with a few upgrades or addition of some luxury materials. We are trying to get creative with value-priced products to drive margin, but it’s hard when budgets are tight.”

“It is the mid-range client that is becoming more conservative about executing a project due to the unstable economy, a resurgence of the pandemic and any potential impact on a project’s timeline. Wealthy clients are consistent with what they want because their situations stay more stable.”

“Lower budget-minded clients, more cautious than ever with concern for the pandemic's economic impact.”

“Our clients that sell into the higher-end of the market are doing well right now. Our clients that sell to the average homeowner and below are not doing as well – consumers are trying to cut corners right now.”

“Most inquiries are budget-oriented, even referrals.”

“We have steady demand, but most of the demand is at a much lower budget than we’re used to.”

“Many more price-oriented consumers are coming through right now. Overall tepid demand.”

“We are seeing more clients with budgets on the lower end of the spectrum than usual.”
Companies are Reporting an Increase in Demand from Millennials and a Decrease in Demand from Boomers

“Seeing fewer older clients due to concerns about exposure to COVID.”

“Big shift in demographics. Many younger clients want to do their first remodel, but these are small jobs.”

“I am doing business with more younger couples than ever before. I mostly did projects for older couples or retirees prior to the pandemic. The younger couples want smaller-scale projects.”

“We’re bidding out way more projects for younger clients with stable jobs. The only boomer demand we are seeing is demand from the wealthy who are quarantining in second homes.”

“My older/retired clients have delayed their projects while my younger clients are going ahead with plans. Scopes are smaller for younger people, in general, so it’s not the most ideal situation.”

“The millennial buyers are taking their travel budgets and spending them on home projects instead. Most are surprised at what things actually cost. It takes a lot of effort to educate them on the front end. Many don’t have the budget to do everything they want to do.”

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 2Q20, Pub: Aug-20)
Uptick in Requests for Simple Repairs and Replacements

“We don't work in repair/replacement, but we are receiving more calls regarding these types of services.”

“Consumers just want to replace a toilet or a sink right now, not a full remodel. We’re getting calls for ideas and help… what they really need is a plumber or handyman.”

“Consumers are focusing on fixing what they have, not on remodeling right now.”

“Seeing more demand for quick fixes needed in second homes or in rentals. People aren’t willing to put a lot of money into an upgrade right now.”

“Consumers are asking for more lower-cost options right now. They are spending on the least expensive materials to just get by.”

“Clients are overall being more practical in what they are after. They ask about replacing vs remodeling.”

“Clients are satisfied with the least expensive option right now. Usually it’s a replacement, not an upgrade”
Companies are Receiving More Calls from DIY’ers

“We are doing a lot of consultations with DIY customers right now.”

“We’re getting more calls for hourly service rather than comprehensive design service. Clients are doing more themselves to try and save money given economic conditions.”

“Seeing a change in services requested… more clients are trying to pay for less up front so they can save money, but they don’t realize that asking for basic drafting services only will hurt the quality of their remodel and the project timeline. In the end they will end up paying more.”

“More homeowners are wanting to do a significant part of the work themselves to save money.”

“Getting calls for “design only.” Many customers are hesitant to purchase cabinetry through us right away.”

“Clients are now paying for design services only before committing to purchasing products or doing a full-scale kitchen or bath remodel.”

“Consumers now want help with simple design work and consults compared to hiring us for a full remodel.”

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 2Q20, Pub: Aug-20)
Increased Demand for Wellness Products and Design

“More ADA-sensitive requests are coming up. People want to stay in their homes.”

“Different age groups are now living together so we have to get creative with designs.”

“More requests for universal design and requests for conversions of garages into parents’ suites.”

“Nobody wants to send their parents to a retirement home right now. We are seeing a lot more demand for in-law suites and long-term wellness planning and design.”

“Seeing an increase in demand for health-conscious products. More requests for stainless steel, no touch faucets, copper or other anti-microbial materials.”

“More outside projects as consumers don’t want to entertain indoors anymore.”

“Rapid shift to demand for outdoor living spaces and kitchens where social distancing is possible.”

“Increase in demand for touchless faucets and voice-activated features.”

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 2Q20, Pub: Aug-20)
SUPPLY CHAIN DISRUPTIONS
SUPPLY CHAIN DISRUPTIONS

Longer lead times, slowing (or stopping) production, and shipping delays have hindered business operations. 59% of NKBA members report that supply chain disruptions are impacting their company. Retailers faced the most supply chain disruptions (66%), followed closely by building and construction firms (65%) and designers (60%). Only 35% of manufacturers faced supply chain issues.

SUPPLY CHAIN DISRUPTIONS IMPACTING YOUR COMPANY

SHARE FACING DISRUPTIONS BY INDUSTRY SEGMENT

- Design: 60%
- Building & Construction: 65%
- Retail Sales: 66%
- Manufacturing: 35%

"Items once stocked no longer stocked OR have been back ordered from supplying manufacturers."
SUPPLY CHAIN DISRUPTIONS

Reports of supply chain disruptions varied by business. Companies that manufacture, sell, distribute, install or specify flooring were the most likely to report supply chain disruptions (63%), followed by those who focus primarily on appliances and cabinets (61%).

SUPPLY CHAIN DISRUPTIONS IMPACTING YOUR COMPANY

Share Facing Disruptions By Product Category Of Company

<table>
<thead>
<tr>
<th>Product Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Flooring</td>
<td>63%</td>
</tr>
<tr>
<td>Appliances</td>
<td>61%</td>
</tr>
<tr>
<td>Cabinets</td>
<td>61%</td>
</tr>
<tr>
<td>Lighting</td>
<td>60%</td>
</tr>
<tr>
<td>Countertops</td>
<td>60%</td>
</tr>
<tr>
<td>Plumbing Fixtures</td>
<td>59%</td>
</tr>
<tr>
<td>Ventilation</td>
<td>58%</td>
</tr>
</tbody>
</table>

Chinese products such as click LVP, light fixtures, cabinet hardware have had extended lead times. Some furniture and window treatments have had extended lead times due to factory shutdowns.

I have experienced delays in production and delivery due to changes in how businesses are operating and their decreased staff. My projects have been delayed by longer lead times for the following products - cabinetry, hinges, plumbing fixtures, appliances and tile. I have also experienced a longer wait time for labor.

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 2Q20, Pub: Aug-20)
INDUSTRY QUOTES ON SUPPLY CHAIN DISRUPTIONS

Companies Report Supply Issues are Less Severe With US Suppliers

“Many of the brands we carry are now looking for suppliers outside China. This directly impacts our ability to quote lead times and product availability. We need consistency to operate successfully.”

“Our biggest obstacle right now is receiving fixtures, sinks and appliances in a timely manner and without any delay. Lead times are really long.”

“Kitchen appliances are totally back ordered. It’s a big problem.”

“We are constantly checking inventories to make sure all products are stocked before we even issue a purchase order. We are only ordering from companies based in the United States right now.”

“We are starting to buy some cabinets locally, but these companies are extremely busy too.”

“Appliances are really challenging. There are a few brands you can’t even get right now.”

“The domestic producers are more reliable than anything coming out of China at the moment.”
COMMENTARY FROM DESIGNERS
32% of design firms report that clients are demanding more bids/proposals for future remodeling projects due to the COVID-19 pandemic, up from only 8% in Q1 2020. The surprising resilience of the economy, likely due to government stimulus, has tempered the fears that were commonly cited last quarter.

Would you say that demand for bids/proposals for future remodeling projects is higher, the same, or lower now that homeowners are confined to their homes as a result of COVID-19?

- Lower
- Stay the same
- Higher

<table>
<thead>
<tr>
<th></th>
<th>Q1 2020</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower</td>
<td>75%</td>
<td>17%</td>
<td>8%</td>
</tr>
<tr>
<td>Q2 2020</td>
<td>41%</td>
<td>27%</td>
<td>32%</td>
</tr>
</tbody>
</table>

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 2Q20, Pub: Aug-20)
PROJECTS CONTINUE TO PROGRESS THROUGH REMOTE OPPORTUNITIES

Eighty-six percent of designers have been able to make progress on their existing or new projects through the pandemic by using virtual meetings, remote work and/or e-design. While the largest share have only been able to make a little progress, just over a third (35%) report making a lot of progress. The share of project pipeline that designers have been able to make progress on varies widely, with the highest concentrations at 35% or below.

Were you able to make any progress on existing or new projects during the pandemic through the use of virtual meetings, remote work and/or e-design?

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 2Q20, Pub: Aug-20)
One quarter of designers began engaging in e-design work due to COVID, driving the share of designers who practice e-design up to 60%. Another 16% of designers plan to begin implementing e-design work soon, signaling that e-design is poised for growth in the coming year.
E-DESIGN WORK TO GROW, DESPITE LIMITATIONS

One in five designers emphasize that the inability to physically be in the space they are designing—particularly to be able to measure the space—is an obstacle that has stood in the way of their progress. An additional one in 10 designers report that the inability for clients to touch and interact with their products and materials is an obstacle to remote work. Despite this, designers expect an average of 15.3% YOY growth in e-design work in 2020.

Remote Work Design Limitations

Measuring The Space

“**I need to measure my projects.** That sometimes takes hours and clients do not want me to be in their home until it is safe.”

“Measurements **cannot be accurately taken.**”

Touch and Feel

“Customers still would like to come into a showroom to **see and touch displays,** but don't want to do it now.”

“There is the inability of clients to **put "hands on"** products to finalize the sale in many cases.”

Technical Difficulties

“Customers are uncomfortable with the technology – some do not have Zoom meeting software installed on their computers and others don't want to meet virtually (most of my clients are elderly looking to age in place).”

“Some of my clients are **not that familiar with computers.**”

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 2Q20, Pub: Aug-20)
Although most designers report facing longer lead times and supply-side issues, only 16% report supply chain disruptions are having a significant, negative impact on their business. Government shutdowns and mandates have become less concerning in Q2 as companies have become more proficient at adhering to new guidelines.

COVID-19 Impact on Business Environment

% of designers reporting these factors are “significantly impacting my business”

- Supply chain disruptions: 16%
- Client finances / budgets have changed: 12%
- More e-business / online sales / online meetings: 10%
- Showrooms are mostly closed: 10%
- Behind schedule on projects: 9%
- Staff disruptions: 8%
- Internal safety concerns: 7%
- Government shutdowns prohibit our work: 6%
- Government shutdowns applied inconsistently: 5%

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 2Q20, Pub: Aug-20)
COVID 19: IMPACT ON RETAIL SALES

Featured: Kohler Signature Store by Supply New England
SUBSTANTIAL IMPROVEMENTS IN Q2 FOOT TRAFFIC REPORTED BY THE RETAIL SALES SEGMENT

Retail sales firms have seen dramatically improved foot traffic, after reporting a sizable drop-off (averaging -75%) in Q1 2020. Despite the improvement, foot traffic for Q2 2020 remains down (averaging -34%).

How much is foot traffic up or down since the onset of the COVID-19 crisis?

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 2Q20, Pub: Aug-20)
Among kitchen and bath retailers, physical showroom locations are vastly more common than online stores. Almost all retailers (98%) have a showroom or physical storefront, while only 15% have an online store. Despite the blow to foot traffic brought by COVID-19, only 10% of retailers plan to start selling kitchen and bath products online, with 75% reporting no plans to start.

% of Companies With Brick and Mortar Store

- 98% Yes
- 2% No

% of Companies With an Online Store

- 15% Yes
- 75% No, and We Don’t Plan To
- 10% No, but We Plan To Soon

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 2Q20, Pub: Aug-20)
97% of retailers report that their showrooms and storefronts are currently open for business. 89% report that their online stores are open for business. This is a sharp improvement from last quarter, where 37% reported that neither their brick and mortar stores nor their online stores were open.

Is your **showroom** or **storefront** currently open for business?

Is your **online store** currently open for business?

**97% Open For Business**

**89% Open For Business**

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 2Q20, Pub: Aug-20)
Although most retailers are also facing longer lead times and supply-side issues, only 20% report supply chain disruptions are having a significant, negative impact on their business.

**COVID-19 Impact on Business Environment**

% of retail sales companies reporting these factors are “significantly impacting my business”

- Supply chain disruptions: 20%
- Client finances / budgets have changed: 12%
- Other labor / workforce disruptions: 10%
- Behind on order fulfillment: 9%
- More e-business / online sales / online meetings: 8%
- Total or partial showroom closures: 8%
- Internal safety concerns: 7%
- Government shutdowns prohibit our work: 6%
- Government shutdowns applied inconsistently: 3%

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 2Q20, Pub: Aug-20)
COVID 19: IMPACT ON BUILDING AND CONSTRUCTION
In a reversal from prior quarter, now half of building and construction firms report 80% or more of their active projects are on schedule despite the COVID-19 pandemic and just 18% of companies report fewer than 20% of their projects are on schedule. Companies have invested significant time and resources into adapting to new health and safety guidelines, project and people management processes, and improving vendor/supplier relations, all of which have contributed to the overall improvement. Companies still facing delays say supply chain issues and government shutdowns, primarily on the east coast, were primary reasons for continued project delays.

Percentage of Active (started) Projects or Jobs on Schedule:

- Less than 20% of projects are on schedule: 18%
- 21% to 40% of projects: 2%
- 41% to 60% of projects: 12%
- 61% to 80% of projects: 17%
- More than 80% of projects are on schedule: 50%

~60% Improvement Over Q1

~300% Improvement Over Q1

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 2Q20, Pub: Aug-20)
TIMELINES FOR RESUMING PROJECTS

Two out of three building and construction companies anticipate resuming delayed projects before Q3 ends. Twenty percent of companies surveyed do not anticipate resuming construction until next year. These projects are primarily being delayed at the request of the client -- due to safety concerns and personal financial reasons.

**When do you anticipate you will be able to resume these postponed projects?**

<table>
<thead>
<tr>
<th>Month</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>July</td>
<td>24%</td>
</tr>
<tr>
<td>August</td>
<td>18%</td>
</tr>
<tr>
<td>September</td>
<td>26%</td>
</tr>
<tr>
<td>October</td>
<td>6%</td>
</tr>
<tr>
<td>November</td>
<td>6%</td>
</tr>
<tr>
<td>December</td>
<td>0%</td>
</tr>
<tr>
<td>Next Year / 2021</td>
<td>20%</td>
</tr>
</tbody>
</table>

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 2Q20, Pub: Aug-20)
Like all other segments, building and construction companies are also facing longer lead times and supply-side issues. Despite that fact, only 18% report supply chain disruptions are having a significant, negative impact on their business.

**COVID-19 Impact on Business Environment**

% of building and construction companies reporting these factors are “significantly impacting my business”

- Supply chain disruptions: 18%
- Client finances / budgets have changed: 14%
- Other labor / workforce disruptions: 10%
- Internal safety concerns: 10%
- More e-business / online sales / online meetings: 9%
- Showrooms are mostly closed: 8%
- Behind schedule on projects and bids: 5%
- Government shutdowns applied inconsistently: 5%
- Government shutdowns prohibit construction: 4%

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 2Q20, Pub: Aug-20)
COVID 19: IMPACT ON MANUFACTURING
Among manufacturers impacted by furloughs, a much smaller share of collective employees were impacted this quarter. Furloughs impacted an average of 41% of company workforces in Q2, down from 61% last quarter. Forty-five percent of manufacturers report their furloughs impacted less than 30% of their employees and only 6% report furloughs impacted all of their employees, down from 29% in Q1.

**Manufacturing**

What percentage of your workforce was impacted by furloughs in Q2?

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 2Q20, Pub: Aug-20)
While 9% of manufacturing firms still only have less than 10% of their employees back to work, the large majority (83%) have at least half of their employee base back to work. Over half of manufacturing companies have at least 80% of their people back to work and 11% of all companies are now at full employment.

**Manufacturing Re-Hiring Activity**

What percentage of your original (pre-pandemic) employee base is now back to work?

54% of Companies Near Full Employment

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 2Q20, Pub: Aug-20)
When surveyed in mid-April, one in five manufacturers reported operating at minimal capacity (0%–20%). When surveyed again in July, zero manufacturers were reporting capacity utilization below 20%. Almost four in five manufacturers now report utilization rates above 60%. On average, manufacturers are running at 72% of capacity.

Utilization Rates – Manufacturing Capacity

<table>
<thead>
<tr>
<th>Q1 2020</th>
<th>Q2 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>21%</td>
<td>0%</td>
</tr>
<tr>
<td>9%</td>
<td>6%</td>
</tr>
<tr>
<td>18%</td>
<td>13%</td>
</tr>
<tr>
<td>26%</td>
<td>35%</td>
</tr>
<tr>
<td>23%</td>
<td>44%</td>
</tr>
</tbody>
</table>

Significant Utilization Improvement Over Q1

ON AVERAGE...

72% Of capacity used

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 2Q20, Pub: Aug-20)
Although manufacturers are also experiencing supply chain issues, only 12% report supply chain disruptions are having a significant, negative impact on their business. The factors having the greatest impact on manufacturers are showroom closures and declining demand from dealers.

**COVID-19 Impact on Business Environment**

<table>
<thead>
<tr>
<th>Factor</th>
<th>% of manufacturers reporting significantly impacting my business</th>
</tr>
</thead>
<tbody>
<tr>
<td>Showroom closures / slower demand from dealers</td>
<td>18%</td>
</tr>
<tr>
<td>Supply chain disruptions</td>
<td>12%</td>
</tr>
<tr>
<td>Consumer budgets have changed</td>
<td>12%</td>
</tr>
<tr>
<td>Other labor / workforce disruptions</td>
<td>9%</td>
</tr>
<tr>
<td>Internal safety concerns</td>
<td>8%</td>
</tr>
<tr>
<td>Behind schedule on production</td>
<td>8%</td>
</tr>
<tr>
<td>Remote working environment</td>
<td>6%</td>
</tr>
<tr>
<td>Market shutdowns are impacting orders</td>
<td>6%</td>
</tr>
<tr>
<td>Government shutdowns applied inconsistently</td>
<td>6%</td>
</tr>
</tbody>
</table>

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 2Q20, Pub: Aug-20)
With economic uncertainty being the most significant concern among manufacturing companies, 61% of companies are still putting capital expenditures on hold due to the coronavirus crisis but down considerably from the 86% of companies saying they were pausing capex spending as of Q1. Among those still delaying capex spending in Q2, over half (52%) of all pre-planned or budgeted capital expenditures were postponed, on average.

### Capital Expenditure Spending Delays

<table>
<thead>
<tr>
<th></th>
<th>Q1 2020</th>
<th>Q2 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>86%</td>
<td>61%</td>
</tr>
<tr>
<td>No</td>
<td>14%</td>
<td>39%</td>
</tr>
</tbody>
</table>

### Percentage of 2020 Capital Expenditures Postponed

As a percentage of all manufacturers who have delayed capex spending

- **Q1 2020**
  - Less than 20%: 12%
  - 21-40%: 18%
  - 41-60%: 12%
  - 61-80%: 10%
  - More than 80%: 11%

- **Q2 2020**
  - Less than 20%: 12%
  - 21-40%: 26%
  - 41-60%: 12%
  - 61-80%: 10%
  - More than 80%: 11%

**Weighted average of postponed capital expenditure for Q2 is 52%.**

**Improvement Over Q1**

- Q1 2020: 40%
- Q2 2020: 27%
KBMI METHODOLOGY

The NKBA / John Burns Real Estate Consulting *Kitchen & Bath Market Index (KBMI)* gauges the pulse of kitchen and bath industry in the US. The KBMI is based on a quarterly survey of the NKBA membership conducted jointly by NKBA and John Burns Real Estate Consulting.

The NKBA membership base consists of thousands of industry professionals, including remodelers, installers, fabricators, trades, kitchen designers, bath designers, interior designers, architects, planners, product manufacturers, cabinet makers, kitchen and bath product suppliers, wholesale distributors, manufacturer’s representatives, dealers, retailers, showrooms, and kitchen and bath e-tailers.

The Kitchen & Bath Market Index (KBMI) is a diffusion index comparing weighted responses of NKBA members on three key aspects of their business: most recent quarterly sales, expectations about next quarter’s sales growth, and an overall perception of the health of the kitchen and bath industry.

The KBMI survey asks NKBA members to rate latest quarterly sales and next quarter sales expectations as “higher,” “the same,” or “lower” than the same period in the prior year. NKBA members also rate the health of the overall kitchen and bath industry on a scale from 0–10, with 0 being “extremely weak” and 10 being “extremely high.”

### Survey responses

<table>
<thead>
<tr>
<th></th>
<th>Building and construction</th>
<th>Design</th>
<th>Manufacturing</th>
<th>Retail sales</th>
<th>All Segments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Index</td>
<td>115</td>
<td>278</td>
<td>103</td>
<td>128</td>
<td>624</td>
</tr>
<tr>
<td>Sales</td>
<td>118</td>
<td>290</td>
<td>105</td>
<td>136</td>
<td>649</td>
</tr>
<tr>
<td>Change in demand</td>
<td>101</td>
<td>259</td>
<td>93</td>
<td>120</td>
<td>573</td>
</tr>
</tbody>
</table>

Note: In Q4-2019, we incorporated changes to the KBMI weighting methodology, and all historical data reflects these changes. The revised index weights three inputs: 55% for current sales conditions, 15% for next quarter sales conditions, and 30% for current industry health.

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 2Q20, Pub: Aug-20)
Conducted jointly by the National Kitchen & Bath Association and John Burns Real Estate Consulting, the Kitchen & Bath Market Index (KBMI) examines current kitchen and bath industry demand, future expectations, and issues and challenges that industry professionals are facing in their businesses.

Responses by segment

- **45%**
  - Design

- **18%**
  - Building and construction

- **21%**
  - Retail sales

- **17%**
  - Manufacturing

Sources: NKBA; John Burns Real Estate Consulting, LLC (Data: 2Q20, Pub: Aug-20)
LIMITING CONDITIONS

The conclusions and recommendations presented in this report are based on our analysis of the information available to us from our research as of the date of this report. We assume that the information is correct and reliable and that we have been informed about any issues that would affect project marketability or success potential.

Our conclusions and recommendations are based on current and expected performance of the national, and/or local economy and real estate market. Given that economic conditions can change and real estate markets are cyclical, it is critical to monitor the economy and real estate market continuously, and to revisit key project assumptions periodically to ensure that they are still justified.

The future is difficult to predict, particularly given that the economy and housing markets can be cyclical, as well as subject to changing consumer and market psychology. There will usually be differences between projected and actual results because events and circumstances frequently do not occur as expected, and the differences may be material. We do not express any form of assurance on the achievability of any pricing or absorption estimates or reasonableness of the underlying assumptions.

In general, for projects out in the future, we are assuming “normal” real estate market conditions, and not a condition of either prolonged “boom” or “bust” market conditions. We do assume that economic, employment, and household growth will occur more or less in accordance with current expectations. We are not taking into account major shifts in the level of consumer confidence; in the ability of developers to secure needed project entitlements; in the cost of development or construction; in tax laws that favor or disfavor real estate markets; or in the availability and/or cost of capital and mortgage financing for real estate developers, owners and buyers. Should there be such major shifts affecting real estate markets, this analysis should be updated, with the conclusions and recommendations summarized herein reviewed and reevaluated under a potential range of build-out scenarios reflecting changed market conditions.

We have no responsibility to update our report analysis for events and circumstances occurring after the date of our report. This analysis represents just one resource that should be considered when assessing a market opportunity.
Kitchen & Bath Market Index

Please contact any of us with questions, feedback, or requests for more information.

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